

COMMODITIES

Recovery in the energy sector continues at a more rapid pace than most analysts would have expected only a year ago. Oil and gas prices are reaching their highest level in years because of a global shortage.

As a result of rising prices and continued increase in production volume, July saw the value of Alberta-produced oil reach a record of an estimated

C\$8.4 Billion 

It is likely that this record will be beaten in October, with the recent increase in prices and continued strong production volume.

The overall increase in energy prices will be a tailwind to Alberta's economy, improving income gains and supporting business and consumer confidence. However, the severe drought last summer will be a drag on the economy, as seen in the July GDP.

INFLATION

Inflation reached 
4.1% in August

A level not seen in more than a decade, and is expected to remain high until at least the end of the year.

Many factors explain why inflation is high in the country. The increase over the past year is due to an accumulation of temporary factors: base effect, supply chain disruptions, poor harvest pushing food prices higher, high transportation cost and rising energy prices.

The Bank of Canada believes that all those factors will only be temporary. However, those factors pushing prices higher are likely to be present for some time, likely years.

Whether inflationary pressures become persistent will depend on how higher inflation feeds into inflation expectations and wage growth. The longer inflation remains high, the more likely it will lead to a rise in inflation expectations.

Q3 Quarterly Economic Summary 2021

Brought to you by Alberta Central's Chief Economist **Charles St-Arnaud**

After a small setback due to the third wave of COVID-19 infections and the associated restrictions, recovery restarted in the summer with solid gains in employment and economic activity in client-facing industries.

A severe drought in Western Canada and unseasonably cool weather in the centre of the country have led to a temporary setback in economic activity, as the economy reopens and the hardest-hit sectors by COVID-19 continue to recover.



As the summer comes to an end, some areas in Canada are battling a fourth wave of infection, however, the impact will be smaller than in previous waves. The high vaccination rate and imposition of proof of vaccination schemes are likely to allow most of the economy to avoid stringent restrictions. Nevertheless, the client-facing sector is again likely to face headwinds.

In Alberta, a more acute fourth wave of infection means that the economy will be more affected than in the rest of the country. As such, real-time economic indicators for the province are weaker than elsewhere in the country.

LABOUR MARKET

The loosening of many restrictions during the summer has allowed for strong job gains in the hardest-hit sectors. As a result, the unemployment rate in Canada and Alberta are at their lowest level since the start of the pandemic at 6.9% and 8.1%, respectively.

The high vaccination levels and proof of vaccination scheme will likely prevent stringent restrictions and another round of big job losses. However, Alberta is likely to be more impacted province than in the rest of the country.

Despite the still high unemployment rate, many businesses face a labour shortage. This situation is explained by many who lost their jobs in the hospitality sector are no longer looking for work in the sector, and weak immigration since the start of COVID has led to about 200k workers missing from the labour force.

In Alberta, the labour shortage is exacerbated by a greater proportion of workers that have left the labour force altogether and by those workers deciding to leave the province. We estimate the province has lost about 50,000 workers due to those two factors alone.

HOUSING MARKET

The housing market remains strong both nationally and in Alberta, with the level of transactions well above their pre-pandemic levels. Pent-up demand, low interest rates, higher disposable income thanks to the government income-support measures and changes in housing preference continue to be the main drivers.



Some cooling has been observed in recent months.

Nevertheless, house prices in Alberta continue to grow at their fastest pace since the collapse of oil prices in 2015.

The housing market is expected to remain strong in 2021 and 2022, supported by continued low interest rates.

However, the housing boom in Canada over the past year comes at the expense of a rapid rise in household indebtedness. The debt-to-income ratio and the debt-to-service ratio remain lower than before the pandemic due to the higher disposable income.